HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Charlottetown CA

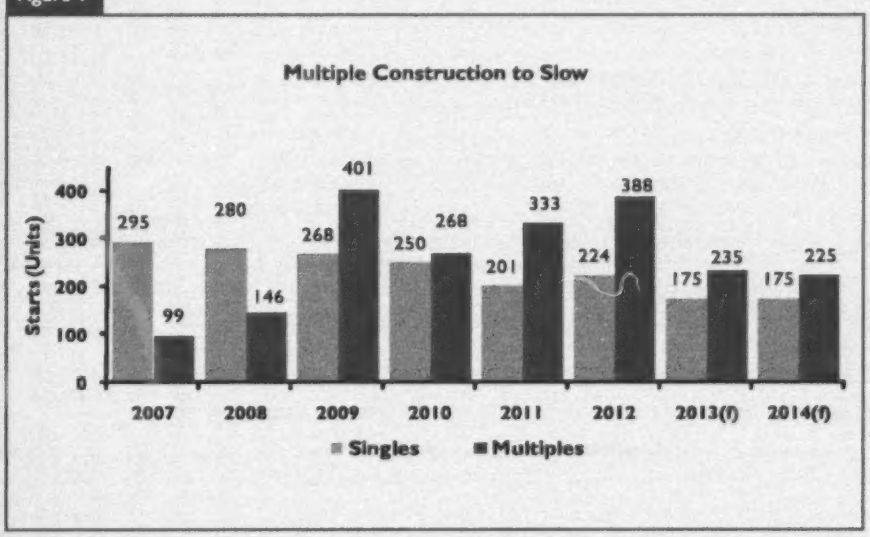
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2013

Highlights

- Apartment starts to decline due in part to a rising vacancy rate
- Single-detached starts will trend down over the forecast period
- MLS® sales to decline as overall housing demand moderates
- Average resale price growth to slow

Figure 1



Source and Forecast: CMHC

Table of Contents

1 Highlights

2 New Home Market: Apartment Construction to Decline

2 Resale Market: MLS® Sales to Decline

3 Vacancy Rates on the Rise

3 Housing Demand to Moderate

3 Mortgage Rates to see Modest and Gradual Increases Late in the Forecast Horizon but will Remain Low by Historical Standards

5 Trends at a Glance

5 Forecast Risks

6 Forecast Summary

7 Glossary of Terms, Definitions and Methodology

9 CMHC - Home to Canadians

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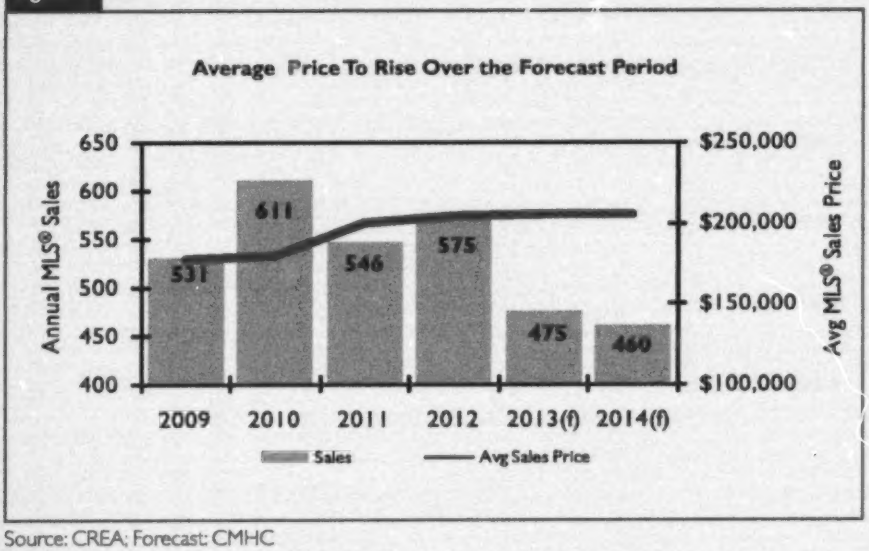
Figure 2



Source: CREA; Forecast: CMHC
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New Home Market: Apartment Construction to Decline

Total new home construction in the Charlottetown CA will decline by more than 30 per cent this year, as rental apartment starts begin to decline. Since 2009, the level of multiple-unit construction has been well above the ten-year average, with more than 1,200 new units built during the last four and a half year period. This surge in rental construction was precipitated by near record low interest rates and vacancy rates in conjunction with strong in-migration and employment growth. The sharp increase in new supply combined with slowing demand, from reduced in-migration, has now resulted in a much higher vacancy rate. This is expected to slow development throughout the forecast period. Multiple-unit starts will drop to 235 units compared to 388 units started last year, before declining further to 225 units in 2014.

Single-detached home construction will continue to decline over the forecast period, continuing a trend of declining starts that started in 2004. Part of this decline is driven by the lower level of affordability in the new single-detached market, when compared to the resale and multiple homeownership market. This trend has swayed many first-time homebuyers to these competing products. In addition, the Charlottetown area has recorded a significant decline in in-migration since the end of the Provincial Nominee Program, resulting in reduced demand for all forms of housing. Overall single detached starts are expected to decline to 175 in both 2013 and 2014, respectively.

Although single starts are expected to decline, the homes that are built will continue to be larger and more elaborate. This trend is evidenced by the gap between the New Home Price Index (NHPI) and the average new home price. The average annual gain in the NHPI has been 0.54 per cent over the past five years. During the same period the average price for a new home grew by 7.5 per cent annually. This clearly shows that the rise in the price of new homes is being driven by consumer preferences and not a cost increase in land, labour and materials. As such, expect the rise in the average new home to remain above the rate of inflation over the forecast period.

Resale Market: MLS® Sales to Decline

MLS® sales in the Charlottetown area have averaged 576 units, over the past ten years. During this period the annual totals have been remarkably close to that figure, ranging from 531 to 650 sales. This level of consistency is even more notable when compared to the volatility experienced in other centres across the country during the same period.

Over the forecast period, the pace of household growth will slow as international migration declines and inter-provincial out-migration increases, mainly to Alberta. The overall impact will be a reduction in demand for resale homes compared to previous years. MLS® sales are expected to decline to 475 units in 2013 and 460 units in 2014.

The average sale price will increase again this year and next, though at a much slower pace than seen in recent years due to the aforementioned reduction in demand. New listings are expected to remain near record high levels, providing ample choice for potential home buyers. While average sale prices in new subdivisions are above the average price, a price decline is not expected because these homes remain a popular housing choice among prospective homebuyers The average MLS® sale price is expected to advance by 0.3 per cent to $205,000 in 2013, and by a further 0.2 per cent $205,500 in 2014.

Vacancy Rates on the Rise

For the third consecutive year, the vacancy rate in the Charlottetown area increased, as the supply of new units outpaced demand. Since the beginning of 2009, the Charlottetown area has added more than 1,200 new rental apartment units to the local apartment universe. This level of construction is well above the ten-year average of 130 units annually recorded and is equal to the total level of apartment construction during the previous 18 years. This level of construction combined with a significant decline in demand, from falling international migration and increased out-migration to Alberta, will result in further increases in the vacancy rate. Expect the vacancy rate to reach 9.0 per cent in 2013 and 10.5 per cent in 2014.

The vacancy rate will rise throughout 2013 and into 2014, due to the large number of units currently under construction. As these units are brought on the market, the vacancy rate is expected to rise as supply will continue to outpace demand.

Housing Demand to Moderate

Many factors impact the demand for housing in a given market. These include, but are not limited to employment, migration and interest rates. When combined, these three variables have a significant effect on the state of local housing markets, both rental and ownership.

The unemployment rate in Charlottetown rose from 8.5 per cent to 9.1 per cent during the first eight months of 2013. This increase was the result of labour force growth outpacing employment gains by about one percentage point during the period. It is expected that the unemployment rate will remain above nine per cent during the forecast period.

During the first three quarters of 2013, total employment in the Capital region rose by six per cent when compared to the same period in 2012. The three sectors with the largest gains were construction, service and public administration. Construction sector employment increased due to strong residential and infrastructure construction in the capital region. While public administration recorded a gain in the first three months of 2013, it is still below the 2011 level. Due to the relatively strong job market, the capital region remains attractive for job seekers compared to other parts of the province. This has been one of the main reasons for the continued trend of urbanization, as Islanders continue to move to the capital region from more rural parts of the province.

For the last census period ending in 2011, the Charlottetown CA recorded a population growth of 5,162 people or 8.7 per cent. While there was some natural population growth during this period, the majority of the increase was due to in-migration. For the Charlottetown area, the historic norm is that 70 per cent of the people moving to the Capital region come from elsewhere in the province, while the remainder comes from other regions of the country. Starting in 2007, this ratio changed due to the combined effect of more people moving west and the influx of international immigrants. International immigration, attributed to the Provincial Nominee Program, has brought more than 8,000 new residents to the Capital region of the province over the past five years. With such a large influx of people, the local housing market has benefitted greatly from this initiative as these new households require housing of all tenure types. However, it is important to note that this program came to an end in 2012, and as such international migration started declining significantly in 2013. Overall migration will not provide a significant amount of housing demand over the forecast period.

Mortgage Rates to see Modest and Gradual Increases Late in the Forecast Horizon but will Remain Low by Historical Standards

Following the June meeting of the Federal Open Market Committee (FOMC) of the U.S. Federal Reserve Board, interest rates rose modestly and then remained steady in both the U.S. and Canada. According to the Federal Reserve Bank of New York, this reflected a change in the risk assessment of investors and not a change in the expected future path of interest rates.[1]

CMHC's interest rate forecast mirrors this view. Hence, mortgage rates have been slightly revised up in the third quarter of 2013 but, thereafter, follow the same interest rate path as before. Nevertheless, this interest rate outlook will continue to be supportive of housing market activity over the forecast horizon, as mortgage rates will remain low by historical standards.

[1] "Preparing for Takeoff? Professional Forecasters and the June 2013 FOMC Meeting." Federal Reserve Bank of New York (2013). Richard Crump, Stefano Eusepi, and Emanuel Moench (http://libertystreeteconomics.newyorkfed.org/2013/09/preparing-for-takeoff-professional-forecasters-and-the-june-2013-fomc-meeting.html)

Mortgage rates are expected to increase gradually and steadily over the forecast horizon. By the end of 2014, mortgage rates are forecast to be somewhat higher than in the third quarter of 2013. According to CMHC's base case scenario for 2013, the average for the one-year posted mortgage rate is forecast to be within 3.00 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent. For 2014, the average for the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.00 per cent.

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Short term mortgage rates are expected to remain at historical low levels which will continue to support housing demand.
Employment	Employment in Charlottetown has been relatively flat from 2010 to 2012, with employment levels at approximately 34,500 jobs. A significant increase in employment levels was recorded in the first eight months of 2013. Employment in the area continues to remain stable and support demand for all types of housing.
Income	The increase in the average weekly earnings in Prince Edward Island for the first eight months of 2013 was below the rate of inflation. The net result was negative real wage growth exerting downward pressure on housing demand.
Net Migration	Out-migration throughout Prince Edward Island has trended upward in 2013, exerting negative pressure on housing demand.
Natural Population Increase	Overall population growth in Prince Edward Island is minimal. The aging population will impact the tenure of housing demand moving forward.
Resale Market	Resale market conditions in Charlottetown are expected to remain in the balanced category due to steady sales and sales price. However, new listings and the average days on market continue to rise.
Other	Reduced public-sector capital spending combined with muted, large-scale private-sector investment will limit economic growth in 2013 and 2014.

Forecast Risks

This outlook is subject to some risk including:

- Increased out-migration throughout the province and significant declines in international immigration will limit demand over the forecast period.
- A stronger than expected U.S. economic recovery or stronger growth in emerging countries could positively impact Canadian economic growth, contributing to a higher level of activity in Canada's housing market.
- Recent levels of apartment starts are expected to impact the vacancy rate further in 2013 and 2014. If the vacancy rate increases faster than expected, construction projects could be delayed.
- Elevated levels of household debt and house prices in some urban centres have made the country's economy more vulnerable to some economic shocks. If interest rates or unemployment were to increase sharply and significantly, some of the more heavily indebted households could be forced to liquidate some of their assets, including their homes. This could put downward pressure on house prices and, more generally, on housing market activity.

Forecast Summary Charlottetown CA Fall 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	250	201	224	175	-21.9	175	0.0
Multiples	268	333	388	235	-39.4	225	-4.3
Starts - Total	518	534	612	410	-33.0	400	-2.4
Average Price ($):							
Single-Detached	235,703	239,840	272,844	250,000	-8.4	255,000	2.0
Median Price ($):							
Single-Detached	220,000	240,000	250,000	242,500	-3.0	247,350	2.0
New Housing Price Index (% chg.)	-1.6	1.8	0.2	0.5	-	0.5	-
Resale Market							
MLS® Sales	611	546	575	475	-17.4	460	-3.2
MLS® New Listings	786	875	924	850	-8.0	800	-5.9
MLS® Average Price ($)	179,813	199,580	204,319	205,000	0.3	205,500	0.2
Rental Market							
October Vacancy Rate (%)	2.3	3.3	5.7	9.0	3.3	10.5	1.5
Two-bedroom Average Rent (October) ($)	731	761	803	835	-	860	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.50	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	33,925	34,625	35,250	34,600	-1.8	34,900	0.9
Employment Growth (%)	4.9	2.1	1.8	1.9	-	0.9	-
Unemployment Rate (%)	7.9	8.3	8.3	8.0	-	8.2	-
Net Migration (P.E.I.)	2,541	1,503	228	900	**	700	-22.2

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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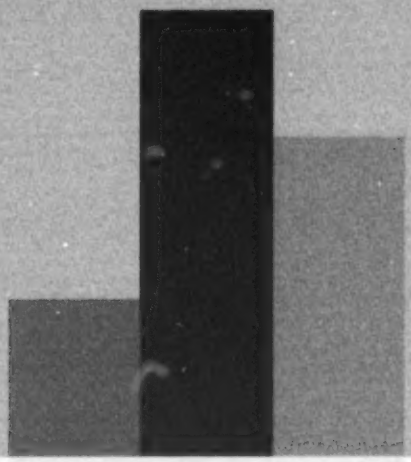

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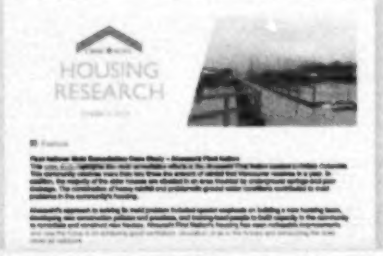

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